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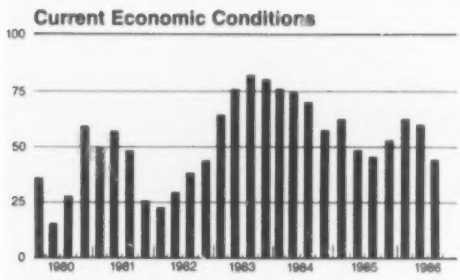
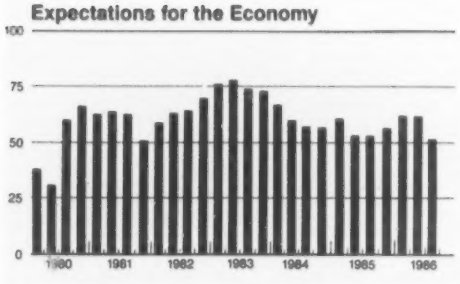
The Conference Board
70th Anniversary

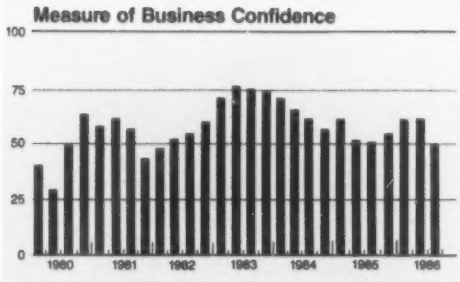
A Survey of Chief Executives

Business Executives' Expectations

A Quarterly Report from The Conference Board **Third Quarter 1986**







Business Confidence Declines Sharply

The Conference Board's *Measure of Business Confidence* declined sharply in the third quarter of 1986 after rebounding to mildly optimistic levels in the first half of the year. The third-quarter decline to a level of 50—from 61 in each of the first two quarters—reversed all of the increase recorded since the third quarter of 1985. Sharp declines both in executives' sentiments about current economic conditions and in their expectations for the economy six months hence pulled down the overall confidence measure.

Expectations Turn Less Bullish

The slump in the *Business Expectations Index*—from 62 in the second quarter to 52 in the third quarter—erased the entire increase recorded since the summer of 1985. Fewer than one-third of the 1,000 top executives surveyed expect the economy to strengthen over the next half year; 6 percent expect the economy to be worse off. Recent moderation in the *Expectations Index* suggests that business executives may have begun to tone down the general optimism they had expressed earlier in the year for new Federal fiscal policies, improvements in the trade balance, and the salutory effects of disinflation. Executives in all industries, except instruments and contract construction, revised their expectations downward for both the economy and their own industries from second-quarter levels.

Current Economic Conditions Deteriorate

Downward revisions in executives' expectations in the third quarter also reflect disappointment with current economic conditions compared with six months earlier. With 48 percent of executives feeling that the economy was worse off in the third quarter, the *Current Economic Conditions* index dropped to 44 from 61 in the second quarter and 63 in the first. Only 15 percent of executives felt the economy had improved during the third quarter; an additional 37 percent noticed no change in economic activity. Executives in only two industries (paper and mining) reported improved conditions (though the mining industry's index remains deeply depressed).

Mild Price Firming Expected In 1987

Persistently strong domestic and international competitive pressures will limit price increases in 1986 and 1987, according to most of the surveyed executives. Fewer than half of the respondents (48 percent) anticipate charging higher prices in 1986 than last year. Of these, only 7 percent plan to raise prices at a more rapid rate than in 1985, while 15 percent plan to match last year's price increases. Nearly one out of ten executives expects 1986 prices to end the year below last year's level.

For 1987, surveyed executives expect prices to firm modestly. About 12 percent of respondents expect to accelerate price increases next year. Another 20 percent plan to raise prices at the same rate as in 1986, while 6 percent anticipate further price reductions. The most common reason for this mild price firming: reduced foreign competition as the lagged effects of the decline in the dollar begin to take hold and imports become more expensive.

Steven Malin

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Table 1: SELLING PRICES IN 1986 COMPARED WITH 1985

	Rise Faster	Rise Same	Rise Slower	No Change	Drop
Durables manufacturing	7%	12%	23%	39%	19%
Nondurables manufacturing	14	7	33	28	19
Mining	12	6	6	23	53
Construction	12	23	12	29	23
Transportation	7	14	21	29	29
Trade	5	33	19	21	21
Communications	0	0	38	50	12
Finance and insurance	6	16	32	32	14
All industries	7	15	26	33	19

Table 2: SELLING PRICE OUTLOOK ONE YEAR AHEAD

	1986 Survey	1984 Survey	1983 Survey
Rise Faster	12%	17%	25%
Rise Same	21	29	32
Rise Slower	30	32	28
No Change	31	18	12
Drop	5	4	3

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1983			1984				1985				1986	
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	June
MEASURE OF BUSINESS CONFIDENCE	75	74	70	65	61	57	61	52	51	55	61	61	50
1. Current Economic Conditions vs. 6 Months Ago	82	80	76	75	70	57	62	48	45	53	63	61	44
2. Expectations for Economy, 6 Months Ahead	74	73	67	60	57	57	61	53	53	56	62	62	52
3. Expectations for Own Industry, 6 Months Ahead	69	70	67	61	57	58	61	55	54	56	59	60	54
4. Current Conditions in Own Industry vs. 6 Months Ago	71	70	70	67	62	55	57	51	47	53	57	54	47

Table 4: OWN INDUSTRY INDEXES

	Current Conditions					Expectations for Next 6 Months				
	1985		1986			1985		1986		
	Aug.	Nov.	Feb.	May	June	Aug.	Nov.	Feb.	May	June
Manufacturing	41	49	55	52	45	53	55	60	59	52
Food	43	46	49	50	50	52	55	55	59	56
Textiles	40	67	72	72	65	46	56	54	58	48
Apparel	36	52	54	40	36	52	50	61	60	45
Paper	38	57	57	59	63	62	59	69	68	59
Printing, Publishing	50	46	59	48	38	59	63	63	58	61
Chemicals	45	47	60	63	55	59	55	66	66	58
Rubber	29	43	48	58	44	48	59	66	67	58
Lumber, Furniture	40	48	61	60	59	52	50	56	67	56
Stone, Clay, Glass	49	57	48	57	57	51	47	58	55	48
Primary Metals	39	46	54	48	33	55	54	57	53	41
Fabricated Metals	45	50	57	52	40	55	56	59	55	51
Nonelectrical Machinery	41	47	50	44	32	46	53	58	57	44
Electrical Machinery	31	48	59	56	51	54	61	65	64	62
Transportation Equipment	41	42	46	49	43	57	51	46	56	48
Instruments	39	52	54	52	47	45	63	64	55	56
Mining	38	41	41	24	38	53	47	54	53	53
Construction	51	53	42	44	40	49	45	43	42	54
Transportation	51	50	50	58	54	56	54	66	68	61
Electric, Gas Utilities	51	53	56	48	49	50	58	55	58	55
Wholesale Trade	42	47	58	54	44	52	57	59	58	55
Retail Trade	45	46	52	54	51	59	53	56	63	59
Banking	54	58	63	55	46	54	58	60	59	51
Other Finance	76	79	74	76	63	61	65	65	61	52
Insurance	63	60	68	68	56	62	62	64	71	57
Business Services	50	51	58	62	52	52	60	55	63	53

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question; a score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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This report is prepared by Steven Malin, Economic Analysis Program. For additional information call (212) 759-0900.

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The Conference Board

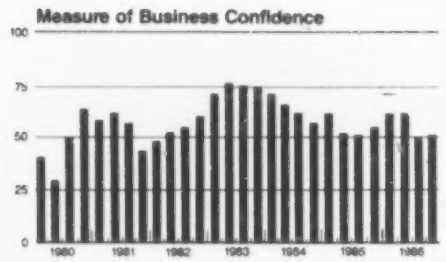
A Survey of Chief Executives

Business Executives' Expectations

A Quarterly Report from The Conference Board **Fourth Quarter 1986**

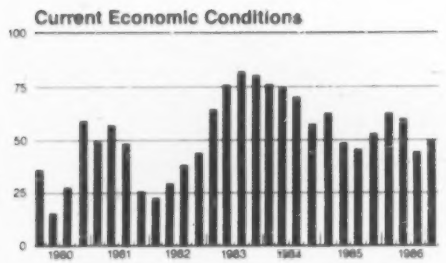
Business Confidence Index Remains Neutral

Executives remain sharply divided in their assessment of current and expected economic conditions. The Conference Board's *Measure of Business Confidence* increased to 51—from 50 in the third quarter—as improved sentiment about current economic conditions barely offset a slight decline in expectations for both the economy and the executives' own industries. These results suggest that most executives anticipate a continuation of recent economic stability well into 1987.



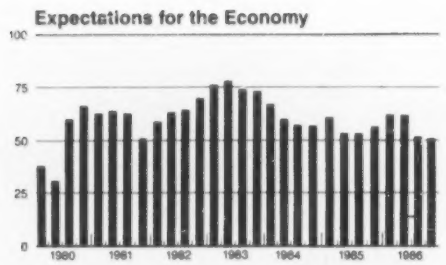
Current Economic Conditions Improved

The fourth-quarter rise in the *Current Conditions Index*—to 50 from 44 in the third quarter—reflects a halving (from 48% to 24%) in the percentage of respondents who felt that economic conditions had deteriorated compared with six months earlier. Led by the paper industry, nearly one-fourth of executives felt the economy had improved in the fourth quarter; about one-half noticed no change in economic activity. Current economic-conditions indexes declined in only 6 industries, most sharply in stone, clay, and glass and contract construction. Respondents reported notable improvement in several depressed industries, including apparel, nonelectrical equipment, and fabricated metals.



Expectations Differ Widely By Industry

Although more executives expect economic conditions to strengthen than to deteriorate (32% compared with 25%) in the first half of 1987, the *Business Expectations Index* declined slightly from 52 to 51. Executives in every manufacturing industry, except electrical machinery, expressed increased optimism. Greater bullishness in the manufacturing sector reflects renewed anticipation of stronger export markets, diminished foreign competitiveness in U.S. markets, and a stronger domestic economy. However, executives in most nonmanufacturing industries have become less bullish about the half-year ahead. Expectations indexes declined in 7 out of 10 sectors, advancing only in finance, insurance, and business services. Weakening expectations reflect concern about the restraining effects of tax reform, surging household indebtedness, and accelerated automobile purchases in late 1986.



Regional Expectations Vary Sharply

Survey respondents confirm widely divergent growth patterns among the various regions. In New England and the South Atlantic, well over 90% of executives report improved economic conditions in their states over the last six months. In the mining and energy-dominated West South Central and Mountain states, roughly three-fourths of respondents report worsened economic conditions compared to 6 months ago.

Executives in all regions (except the West South Central) anticipate greater economic stability or further economic improvement for their own states in the first half of 1987. Major concerns include lack of pro-business attitudes by state governments, price weakness or instability, uncertainty about the automobile industry, and the uncertain outlook for federal spending (particularly on national defense).

Steven Malin

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Table 1: ECONOMIC CONDITIONS IN YOUR STATE COMPARED WITH SIX MONTHS AGO

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	15%	30	50	5	0
Middle Atlantic	0%	42	32	23	3
South Atlantic	8%	50	33	8	0
East South Central	0%	60	20	20	0
East North Central	0%	10	40	46	4
West North Central	0%	0	61	33	6
West South Central	0%	4	14	54	29
Mountain	0%	0	29	71	0
Pacific	9%	36	27	27	0

Table 2: ECONOMIC CONDITIONS IN YOUR STATE SIX MONTHS AHEAD

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	0%	40	55	5	0
Middle Atlantic	3%	27	43	20	7
South Atlantic	0%	50	42	8	0
East South Central	0%	80	20	0	0
East North Central	2%	21	42	29	6
West North Central	0%	6	78	17	0
West South Central	0%	11	32	50	7
Mountain	0%	14	43	43	0
Pacific	0%	55	36	0	9

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1983		1984				1985				1986			
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.
MEASURE OF BUSINESS CONFIDENCE	75	74	70	65	61	57	61	52	51	55	61	61	50	51
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3. Expectations for Own Industry, 6 Months Ahead	69	70	67	61	57	58	61	55	54	56	59	60	54	53
4. Current Conditions in Own Industry vs. 6 Months Ago	71	70	70	67	62	55	57	51	47	53	57	54	47	50

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	Current Conditions						Expectations for Next 6 Months					
	1985		1986				1985		1986			
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Aug.	Nov.	Feb.	May	Aug.	Nov.
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Food	43	46	49	50	50	57	52	55	55	59	56	63
Textiles	40	67	72	72	65	60	46	56	54	58	48	58
Apparel	36	52	54	40	36	50	52	50	61	60	45	54
Paper	38	57	57	59	63	69	62	59	69	68	59	62
Printing, Publishing	50	46	59	48	38	37	59	63	63	58	61	62
Chemicals	45	47	60	63	55	54	59	55	66	66	58	62
Rubber	29	43	48	58	44	56	48	59	66	67	58	66
Lumber, Furniture	40	48	61	60	59	62	52	50	56	67	56	62
Stone, Clay, Glass	49	57	48	57	57	44	51	47	58	55	48	48
Primary Metals	39	46	54	48	33	37	55	54	57	53	41	46
Fabricated Metals	45	50	57	52	40	47	55	56	59	55	51	51
Nonelectrical Machinery	41	47	50	44	32	41	46	53	58	57	44	51
Electrical Machinery	31	48	59	56	51	52	54	61	65	64	62	57
Transportation Equipment	41	42	46	49	43	51	57	51	46	56	48	53
Instruments	39	52	54	52	47	53	45	63	64	55	56	64
Mining	38	41	41	24	38	43	53	47	54	53	53	48
Construction	51	53	42	44	40	29	49	45	43	42	54	31
Transportation	51	50	50	58	54	55	56	54	66	68	61	58
Electric, Gas Utilities	51	53	56	48	49	54	50	58	55	58	55	53
Wholesale Trade	42	47	58	54	44	52	52	57	59	58	55	48
Retail Trade	45	46	52	54	51	52	59	53	56	63	59	48
Banking	54	58	63	55	46	47	54	58	60	59	51	45
Other Finance	76	79	74	76	63	67	61	65	65	61	52	60
Insurance	63	60	68	68	56	55	62	62	64	71	57	58
Business Services	50	51	58	62	52	50	52	60	55	63	53	55

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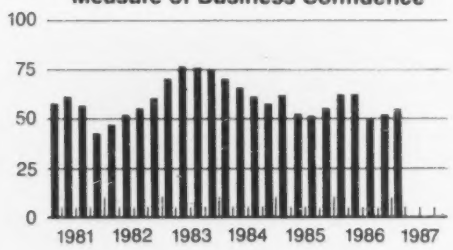
A Survey of Chief Executives

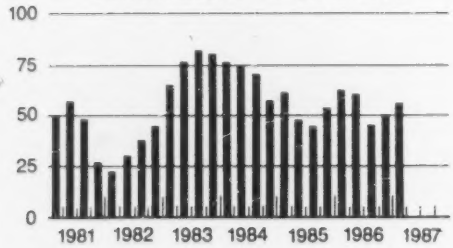
Business Executives' Expectations

A Quarterly Report from The Conference Board **First Quarter 1987**

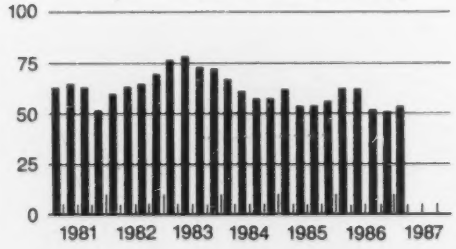
Measure of Business Confidence



Current Economic Conditions



Expectations for the Economy



Business Confidence: A Modest Increase

Executives' sentiments about current economic conditions and the outlook for the second half of the year improved in the first quarter of 1987. The Conference Board's *Measure of Business Confidence* increased to 55—from 51 in the fourth quarter—although it remained well below the level of 61 posted in the first half of 1986. Optimism increased in most manufacturing industries, but declined in several nonmanufacturing industries.

Current Conditions Broadly Better

General improvement in current business conditions accounted for the bulk of the rise in business confidence. The *Current Conditions Index* increased to 56—from 50 in the fourth quarter—as executives in virtually all industries reported improved conditions compared with six months earlier. In several manufacturing industries—notably rubber, publishing and primary metals—the *Current Conditions Index* soared to its highest level in more than a decade. Renewed strength in these industries probably reflects the favorable effects of rising commodity prices, dollar depreciation, and increasing export volume.

Expectations Vary Widely by Industry

For the second half of the year, executives' expectations varied widely across industries, with 36% expecting improved conditions and 21% expecting economic conditions to deteriorate. Executives in 8 out of the 15 manufacturing industries surveyed expected tougher times ahead; expectations worsened in 3 out of 10 nonmanufacturing industries. Overall, the *Business Expectations Index* increased to 54, from 51 in the fourth quarter. The small size of this increase probably reflects growing uncertainty about the future course of monetary policy, inflation, currency fluctuations and the trade deficit. Some executives expressed concern about liability insurance costs, overcapacity, excessive government regulations and foreign competition.

Employment Prospects Mediocre

General ambivalence about the economic outlook is also reflected in respondents' expectations about employment growth in their respective industries. Nearly one-fourth of all executives expect employment to decline by at least 1% in their industry this year; only one-sixth expect an increase of at least 1 percent. Employment prospects for the remainder of the year look weakest in these areas: nonelectrical machinery; rubber; stone, clay and glass; and in the electrical and gas utilities. Best employment prospects are in retail trade, business services, real estate and chemicals.

Executives in several industries expect increasing difficulty finding qualified employees in the months ahead. Typically, these industries require strong technical skills (lumber and furniture and instruments) or strong verbal and keyboard skills (banking). In New England and the Middle Atlantic states especially, executives cited shortages of skilled workers as the biggest problem confronting their industries.

Steven Malin

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Table 1: EXPECTED CHANGE IN OWN-INDUSTRY EMPLOYMENT, 1987 (percent of respondents)

	Increase	No Change (± 1%)	Decrease
All Industries	22%	50%	28%
Manufacturing	17	57	26
Mining and Agriculture	0	67	33
Services	28	44	28

Table 2: PERCENT EXPECTING GREATER DIFFICULTY FINDING QUALIFIED EMPLOYEES IN CURRENT YEAR

	1981	1982	1983	1984	1985	1986	1987
All Industries	26%	13%	8%	21%	22%	21%	19%
Manufacturing	20	9	7	21	18	17	17
Nonmanufacturing	30	16	n.a.	22	24	25	24

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984				1985				1986				1987
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.
MEASURE OF BUSINESS CONFIDENCE	70	65	61	57	61	52	51	55	61	61	50	51	55
1. Current Economic Conditions vs. 6 Months Ago	76	75	70	57	62	48	45	53	63	61	44	50	56
2. Expectations for Economy, 6 Months Ahead	67	60	57	57	61	53	53	56	62	62	52	51	54
3. Expectations for Own Industry, 6 Months Ahead	67	61	57	58	61	55	54	56	59	60	54	53	56
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	Current Conditions							Expectations for Next 6 Months						
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Apparel	36	52	54	40	36	50	58	52	50	61	60	45	54	50
Paper	38	57	57	59	63	69	69	62	59	69	68	59	62	56
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Banking	54	58	63	55	46	47	47	54	58	60	59	51	45	50
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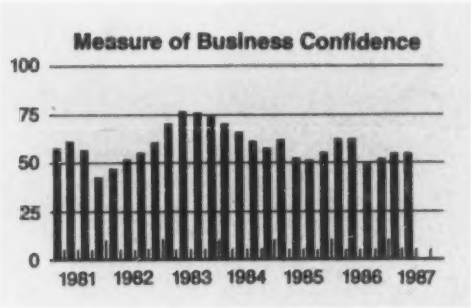
The Conference Board

A Survey of Chief Executives

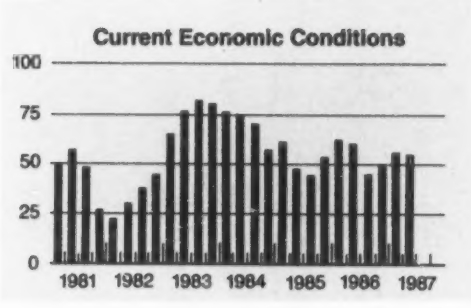
Business Executives' Expectations

A Quarterly Report from The Conference Board **Second Quarter 1987**



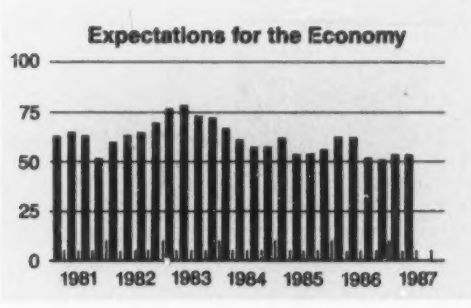
Business Confidence Index: Stuck in Neutral

Despite slightly less optimism about current and expected economic conditions, The Conference Board's *Measure of Business Confidence* remained unchanged at 55 in the second quarter. With the exception of the first and second quarters of 1986, the business confidence index has fluctuated narrowly between 51 and 55 for two years. Stability in the index mirrors the economy's steady but moderate growth, and the business community's expectation of no major changes ahead.



Current Conditions Mildly Weaker

The slight second quarter decline in the *Current Conditions Index*—from 56 to 55—reflects ambivalence in executives' sentiments. Executives in 10 out of 15 manufacturing industries, and in 5 out of 10 nonmanufacturing industries, thought that their industries were less well off this spring than they were last autumn. However, only 17% of respondents felt that conditions in the national economy had deteriorated during the first half of 1987. Although the *Current Conditions Index* for most industries hardly changed, notable declines were posted in apparel, rubber, chemicals, furniture and finance. Executives in the textiles and instruments industries reported moderately improved conditions.



Expectations Holding Steady

The *Business Expectations Index* fell slightly from 54 in the first quarter to 53 in the second. Its steadiness partly reflects the perception that no major changes in economic conditions or policies will occur over the next six months. Led by the chemicals industry, executives in 9 out of 15 manufacturing industries expressed moderately increased optimism about prospects for their own industries in the second half of 1987. In contrast, expectations weakened moderately in the apparel industry and in several interest rate-sensitive industries, notably contract construction, banking and finance.

Executives Favor Freer and Fairer Trade

Concern about the harmful effects of the trade deficit on the U.S. economy dampened overall business confidence. Survey respondents widely endorsed free-trade policies worldwide and a hands-off approach by the federal government to trade matters—except to pressure foreign trading partners to open up their markets fully to U.S. exports. Many executives report that protectionism and unfair trade practices abroad have hurt their businesses. However, fearing retaliation and potentially inflationary consequences, survey respondents almost uniformly rejected the adoption of protectionist measures by the United States. Several executives considered reduction of the federal budget deficit a prerequisite for a stronger trade policy.

For most executives, further depreciation of the dollar is not a high priority. Only 34% said that the dollar's depreciation since 1985 had been helpful to their businesses. Citing the higher cost of imported materials, parts and finished goods, 17% of executives felt that the lower dollar exchange rate was harmful.

Steven Malin

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Table 2: EFFECT OF CHANGES IN TARIFFS, AND TRADE REGULATIONS
(percent of respondents)

	Very Beneficial	Beneficial	Little or None	Harmful	Very Harmful
All Industries	0.9%	12.1	72.7	12.3	2.0
Manufacturing	0.9%	16.6	69.8	10.8	1.8
Primary Metals	0%	39.1	52.2	4.3	4.3
Nonmanufacturing	2.0%	6.8	73.0	14.5	3.7
Retail Trade	0%	14.3	28.6	35.7	21.4
Business Services	0%	5.7	85.7	2.9	5.7

Table 1: EFFECT OF CHANGES IN VALUE OF DOLLAR SINCE 1985
(percent of respondents)

	Very Beneficial	Beneficial	Little or None	Harmful	Very Harmful
All Industries	3.5%	30.6	49.1	15.2	1.6
Manufacturing	4.9%	48.7	33.5	10.1	2.9
Primary Metals	13.0%	56.5	26.1	4.4	0
Nonmanufacturing	6.6%	23.1	50.6	17.6	2.2
Retail Trade	0%	21.4	42.9	35.7	0
Business Services	5.7%	25.7	48.6	20.0	0

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984			1985				1986				1987	
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
MEASURE OF BUSINESS CONFIDENCE	65	61	57	61	52	51	55	61	61	50	51	55	55
1. Current Economic Conditions vs. 6 Months Ago	75	70	57	62	48	45	53	63	61	44	50	56	55
2. Expectations for Economy, 6 Months Ahead	60	57	57	61	53	53	56	62	62	52	51	54	53
3. Expectations for Own Industry, 6 Months Ahead	61	57	58	61	55	54	56	59	60	54	53	56	56
4. Current Conditions in Own Industry vs. 6 Months Ago	67	62	55	57	51	47	53	57	54	47	50	58	57

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1985	1986				1987		1985	1986				1987	
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
Manufacturing	49	55	52	45	50	60	59	55	60	59	52	55	58	56
Food	46	49	50	50	57	60	58	55	55	59	56	63	58	64
Textiles	67	72	72	65	00	59	69	56	54	58	48	58	63	47
Apparel	52	54	40	36	50	58	63	50	61	60	45	54	50	56
Paper	57	57	59	63	69	69	55	59	69	68	59	62	56	59
Printing, Publishing	46	59	48	38	37	57	54	63	63	58	61	62	61	55
Chemicals	47	60	63	55	54	69	63	55	66	66	58	62	69	58
Rubber	43	48	58	44	56	81	64	59	66	67	58	66	50	50
Lumber, Furniture	48	61	60	59	62	67	54	50	56	67	56	62	50	54
Stone, Clay, Glass	57	48	57	57	44	53	58	47	58	55	48	48	53	58
Primary Metals	46	54	48	33	37	67	65	54	57	53	41	46	56	52
Fabricated Metals	50	57	52	40	47	61	54	56	59	55	51	51	56	53
Nonelectrical Machinery	47	50	44	32	41	57	58	53	58	57	44	51	54	57
Electrical Machinery	48	59	56	51	52	63	60	61	65	64	62	57	68	56
Transportation Equipment	42	46	49	43	51	55	52	51	46	56	48	53	50	52
Instruments	52	54	52	47	53	54	63	63	64	55	56	64	58	73
Mining	41	41	24	38	43	69	67	47	54	53	53	48	64	61
Construction	53	42	44	40	29	50	48	45	43	42	54	31	58	46
Transportation	50	50	58	54	55	58	52	54	66	68	61	58	54	52
Electric, Gas Utilities	53	56	48	49	54	49	57	58	55	58	55	53	49	57
Wholesale Trade	47	58	54	44	52	56	59	57	59	58	55	48	55	55
Retail Trade	46	52	54	51	52	54	52	53	56	63	59	48	52	54
Banking	58	63	55	46	47	47	49	58	60	59	51	45	50	49
Other Finance	79	74	76	63	67	73	50	65	65	61	52	60	62	52
Insurance	60	68	68	56	55	61	55	62	64	71	57	58	50	52
Business Services	51	58	62	52	50	51	61	60	55	63	53	55	54	64

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence,** thus can range from 0 to 100.

The Conference Board

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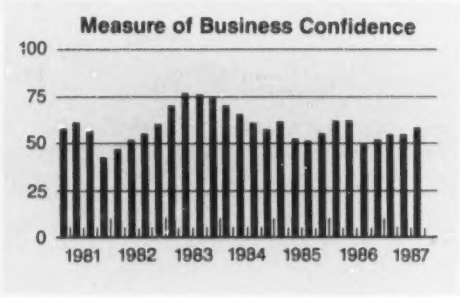

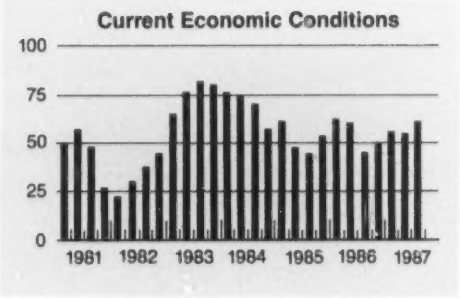

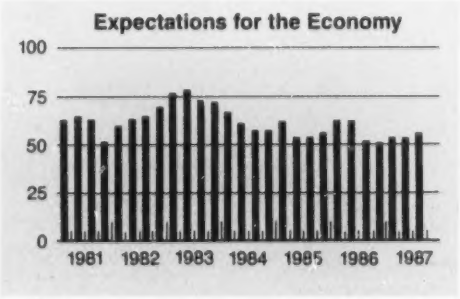

Moderate Increase in Business Confidence

The view of executives about current economic conditions and the outlook for the next six months improved moderately in the third quarter. The Conference Board's *Measure of Business Confidence* increased to 59, its highest level in a year and a half, from 55 in the first and second quarters. The renewed confidence reflected strengthening of the domestic economy and the expectation that a rise in U.S. exports and a decrease in foreign competitiveness in U.S. markets would boost profits and permit greater price flexibility.

Current Conditions Much Improved

Most of the increase in business executives' confidence derives from increased optimism concerning current economic conditions. The *Current Conditions Index* rose to 62 in the third quarter—from 55 in the second quarter and from 44 a year earlier—as 52% of survey respondents felt that economic conditions had improved since the beginning of 1987; only 5% of executives reported deterioration. More than half of the executives also believed that conditions had improved in their own industries, with substantial gains reported by paper, construction and wholesale trade companies. Executives in the stone, clay and glass, rubber, textiles and food industries reported setbacks.

Expectations Improved but Clouded by Worries

For the six months ahead, most executives expect moderate improvement in U.S. economic conditions. Overall, the *Business Expectations Index* increased to 56 in the third quarter from 53 in the second. A majority of executives in all 10 *nonmanufacturing* industries tracked by the survey look forward to better times, but in *manufacturing* expectations improved in only 8 out of 15 industries. The ambivalence of manufacturing executives reflects general optimism about the overall economy and expected increases in export orders. But this good news is partially tainted by fears about the future course of domestic monetary and fiscal policies, high levels of private- and public-sector indebtedness, and uncertainty about the outlook for inflation and interest rates.

Concern Over Inflation

For the first time in five years, most executives expect accelerating, rather than decelerating, U.S. inflation rates to strongly influence their companies' pricing strategy in 1988. Rising energy and natural resource prices, softening import competition and generally strong domestic and international economic conditions were also cited by many executives as putting upward pressures on their companies' prices. Many survey respondents felt that shortfalls in productive capacity—within their own industries and elsewhere—will result in inflationary bottlenecks. Ironically, many executives also believe that accelerating inflation will facilitate price increases that will boost their companies' profitability in the months ahead.

Steven Malin

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Table 1: EXPECTED PRICE CHANGE, 1987 vs. 1986 IN PRINCIPAL LINE OF BUSINESS
(percent of respondents)

	Larger Increase	Same Increase	Smaller Increase	No Change	Decrease
All Industries	20.2%	24.8	20.5	24.9	9.6
Manufacturing	20.5%	28.1	19.2	23.7	8.5
Durables	16.6%	26.9	16.1	31.4	9.0
Nondurables	26.5%	32.4	19.7	14.5	6.8
Services	18.1%	20.8	22.0	28.4	10.7

Table 2: EXPECTED PRICE CHANGE, 1988 vs. 1987 IN PRINCIPAL LINE OF BUSINESS
(percent of respondents)

	Larger Increase	Same Increase	Smaller Increase	No Change	Decrease
All Industries	19.2%	26.9	26.7	21.1	6.1
Manufacturing	19.4%	28.1	28.1	19.9	4.5
Durables	18.4%	24.7	28.7	21.9	6.3
Nondurables	19.5%	33.3	27.4	17.1	1.7
Services	17.7%	25.5	25.2	24.9	6.8

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984		1985				1986				1987		
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.
MEASURE OF BUSINESS CONFIDENCE	61	57	61	52	51	55	61	61	50	51	55	55	59
1. Current Economic Conditions vs. 6 Months Ago	70	57	62	48	45	53	63	61	44	50	56	55	62
2. Expectations for Economy, 6 Months Ahead	57	57	61	53	53	56	62	62	52	51	54	53	56
3. Expectations for Own Industry, 6 Months Ahead	57	58	61	55	54	56	59	60	54	53	56	56	58
4. Current Conditions in Own Industry vs. 6 Months Ago	62	55	57	51	47	53	57	54	47	50	58	57	61

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1986				1987			1986				1987		
	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.
Manufacturing	55	52	45	50	60	59	61	60	59	52	55	58	56	56
Food	49	50	50	57	60	58	48	55	59	56	63	58	64	62
Textiles	72	72	65	60	59	69	54	54	58	48	58	63	47	50
Apparel	54	40	36	50	58	63	75	61	60	45	54	50	56	54
Paper	57	59	63	69	69	55	79	69	68	59	62	56	59	60
Printing, Publishing	59	48	38	37	57	54	58	63	58	61	62	61	55	64
Chemicals	60	63	55	54	69	63	63	66	66	58	62	69	58	60
Rubber	48	58	44	56	81	64	50	66	67	58	66	50	50	44
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Fabricated Metals	57	52	40	47	61	54	62	59	55	51	51	56	53	53
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Electrical Machinery	59	56	51	52	63	60	65	65	64	62	57	68	56	58
Transportation Equipment	46	49	43	51	55	52	62	46	56	48	53	50	52	53
Instruments	54	52	47	53	54	63	56	64	55	56	64	58	73	47
Mining	41	24	38	43	69	67	75	54	53	53	48	64	61	59
Construction	42	44	40	29	50	48	64	43	42	54	31	58	46	59
Transportation	50	58	54	55	58	52	60	66	68	61	58	54	52	65
Electric, Gas Utilities	56	48	49	54	49	57	63	55	58	55	53	49	57	61
Wholesale Trade	58	54	44	52	56	59	70	59	58	55	48	55	55	62
Retail Trade	52	54	51	52	54	52	53	56	63	59	48	52	54	61
Banking	63	55	46	47	47	49	50	60	59	51	45	50	49	57
Other Finance	74	76	63	67	73	50	51	65	61	52	60	62	52	53
Insurance	68	68	56	55	61	55	57	64	71	57	58	50	52	54
Business Services	58	62	52	50	51	61	60	55	63	53	55	54	64	65

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